



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Kayenta Unified School District No. 27

As of June 12, 2003

Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 8, 2003

Governing Board
Kayenta Unified School District No. 27
P.O. Box 337
Kayenta, AZ 86033-0337

Members of the Board:

We completed a status review of deficiencies cited in the summary accompanying our January 31, 2003, letter. That summary described the deficiencies cited in the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2001. The District was given 90 days to correct the cited deficiencies. The purpose of our review was to determine whether the District made the corrections necessary to comply with the USFR. We also included in our status review additional deficiencies cited in the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2002. Our review, which consisted primarily of inquiries and selective testing of accounting records and control procedures, was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure disclosure of all instances of noncompliance with the USFR.

Based on the number and nature of the deficiencies noted in our status review, the District still has not complied with the USFR. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's continued noncompliance. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for correction.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this status review report.

Sincerely,

A handwritten signature in black ink, appearing to read "Debra K. Davenport".

Debra K. Davenport
Auditor General

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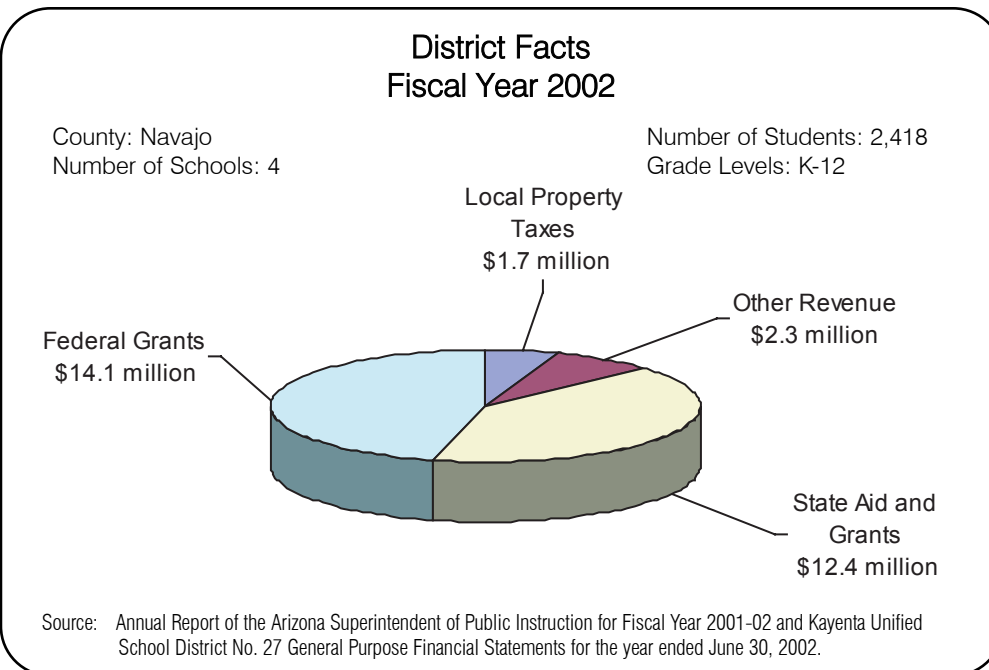
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INTRODUCTION

Kayenta Unified School District No. 27 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$30.5 million received in fiscal year 2001-02 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education. The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District has failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



The District should maintain accurate capital assets and stewardship lists

Assets acquired prior to fiscal year 2000-01 were not included on the capital assets list. Since the omitted assets were such a significant portion of the District's total assets at June 30, 2002, the District's auditors issued a qualified opinion on the District's financial statements for that year.

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Good stewardship requires the District to have accurate lists of these assets. However, the District did not maintain complete and accurate capital assets and stewardship lists. Specifically, capital assets acquired prior to fiscal year 2000-01 were not included on the District's current capital assets list. In addition, the capital assets and stewardship lists did not include accurate (tag) numbers for all items, and the costs recorded on the capital assets list did not include ancillary charges, such as freight, sales tax, and installation costs for some items. Also, the District had not reconciled the results of its physical inventory to the capital assets list or the current year's capital assets list to the prior year's list. Finally, several computers located on the District's premises were not tagged or otherwise identified as district property.

Recommendations

The following procedures can help the District ensure that its capital assets and stewardship lists are accurate and complete:

- Prepare and maintain a current capital assets list of all items costing \$5,000 or more and with useful lives of 1 year or more.
- Prepare and maintain a current stewardship list of all equipment items costing \$1,000 or more but less than \$5,000.
- Include all required information for each item on the capital assets and stewardship lists.
- Record assets at actual cost, including ancillary charges, such as freight, sales tax, delivery, installation, assembly charges, and other incidental costs.
- Affix a tag with an identifying number to each equipment item costing \$1,000 or more, or use some other means, such as serial number, to specifically identify each asset on the capital assets and stewardship lists.
- Perform a physical inventory of all equipment at least every 3 years. Assign an employee who has no custodial responsibilities to reconcile the results of the physical inventory to the existing lists and add items to or remove items from the lists as necessary.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describes the information that should be recorded on the capital assets and stewardship lists.

- Reconcile items added to the capital assets list during the fiscal year to capital expenditures for that year, the prior year's capital assets list to the current year's list, and make all necessary corrections.

The form on USFR page VI-E-14 may be used to reconcile the current year's capital assets list to the previous year's list.

The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public money they spend. However, the District did not follow the School District Procurement Rules or the USFR guidelines in several cases. For example, the District did not always determine whether the total purchase amount for an item or a collection of like items would require the use of competitive purchasing. Specifically, competitive sealed bidding was not used for two vendors where the cumulative purchases from the vendor should have been competitively bid.

In addition, the Governing Board did not determine in writing that the use of competitive sealed bids was either not practicable or not advantageous to the District before awarding a contract of dining services obtained through competitive sealed proposals. Further, the District did not submit documentation supporting an emergency purchase to the Governing Board and did not always obtain written and oral price quotations for purchases requiring them.

The District did not always ensure the use of competitive sealed bidding procedures where purchases required them. Also, the District consistently violated oral quotation guidelines and did not obtain written quotes in all applicable cases.

Recommendations

To strengthen controls over competitive purchasing and comply with School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids or proposals for purchases of construction, materials, or services exceeding \$32,700. The purchase may be a single item, or it may be a collection of items that, in the aggregate, exceed \$32,700.
- Obtain written determination from the Governing Board that the use of competitive sealed bids is not beneficial to the District before making purchases through competitive sealed proposals, except for certain services specified in the procurement rules.

- Document in writing, the basis for emergency purchases, including vendor selection and reasonableness of price paid, and provide this information to the Governing Board.
- Obtain written price quotations from at least three vendors for purchases costing between \$15,000 and \$32,700 and oral price quotations from at least three vendors for purchases costing between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

The District's accounting records should be accurately maintained

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that transactions are properly approved and supported, and that amounts are recorded correctly in the appropriate accounts. However, the District did not fully accomplish this objective. For example a district attorney or the County Attorney had not always approved the District's intergovernmental agreements. Intergovernmental agreements should be reviewed by an attorney for the District to ensure that the agreement is in proper form and is within the District's statutory powers and authority. In addition, employees did not always record clock-in and clock-out times on time cards to support the hours they worked. Finally, the District maintained accounting records that included five funds that were no longer active and improperly recorded property rental transactions.

Recommendations

The following procedures can help the District record and report accurate financial information:

- Obtain written approval from a district or county attorney for each IGA.
- Hourly employees should prepare accurate and complete time cards or individual time sheets for each pay period.
- Each employee should sign each pay period's time card or time sheet as acknowledgement of hours worked and each supervisor should sign employee time cards or time sheets as approval of hours worked.

- Close all inactive funds and transfer remaining balances to the appropriate fund or entity. Arizona Revised Statutes §15-1024(B) requires the balance in the Bond Building Fund to be transferred to the Debt Service Fund if outstanding indebtedness exists or to the Maintenance and Operation Fund if no outstanding bonded indebtedness exists.
- Record all financial transactions in accordance with the USFR Chart of Accounts.

The District should strengthen controls over food service and student activities operations

Food service monies are generated from food sales to students and reimbursements for federal child nutrition program grants, and are used to pay the program's operating costs. Student activities monies are raised by students and held by the District for safekeeping. Therefore, the District has a duty to ensure that employees and student groups follow proper procedures for collecting and spending these monies. However, the District approved and paid food service expenditures and student activities disbursements without ensuring sufficient cash was available. As a result, the Food Service Fund and two student groups had deficit cash balances as of May 31, 2003. Also, student groups did not reconcile cash collections to items sold during its fund-raising activities.

The Food Service Fund had a deficit cash balance of over \$290,000 as of May 31, 2003.

Recommendations

The following procedures can help the District strengthen controls over food service and student activities cash receipts and disbursements:

Food Service

- Periodically compare actual revenues and expenditures with the estimated revenues and budgeted expenditures in order to provide better control over expenditures.
- Determine availability of cash to pay expenditures as they become due.
- Approve expenditures only when sufficient cash is available.

A sample student activities cash collection report is on USFR page X-H-21.

Student Activities

- Each student group should approve their student activities disbursements and document approval in their minutes.
- The student group should prepare and submit a student activities requisition form to the District, and the District should determine sufficiency of cash for the requested disbursement.
- The District should approve the disbursement only when sufficient cash is available. If the group's cash balance is not sufficient, the District should deny the requisition.
- Student Groups should reconcile cash collected to items sold on student activities cash collection reports. For fund-raisers where it is not practical to determine the items sold, such as bake sales, student groups should prepare cash collection reports to document cash collected.

The District's supplies inventory should be adequately controlled

The District's cleaning, classroom, food service, and maintenance supplies were not adequately controlled, making them susceptible to theft, overstocking, spoilage, and obsolescence.

Because of the expendable nature of supplies that are consumed in the normal course of operating the District, the District should establish effective internal control policies and procedures to provide accurate financial reporting and to physically safeguard inventories. Strong internal control over inventories helps prevent theft, overstocking, understocking, spoilage, and obsolescence. However, the District did not adequately control its supplies inventories. Specifically, the District did not perform a physical inventory for some supplies, and inventories that were performed were not always done properly. As a result, complete and accurate lists of district supplies were not prepared. In addition, the District had not established procedures for valuing inventory items or identifying obsolete supplies.

Recommendations

The following procedures can help the District maintain effective internal control over its supplies inventories:

- Prepare detailed written instructions for performing physical inventory counts and provide them to all employees involved in the process. Instructions should include separate counting and recording functions.

Instructions for performing a physical inventory of supplies are listed on USFR pages VI-D-4 and 5.

- Perform a complete physical inventory at least annually.
- Prepare supplies inventory lists annually. Inventory lists should include item and unit descriptions, purchase document numbers, quantities, unit costs, extended costs, page totals, and a grand total.
- Establish a consistent method for valuing its supplies inventories and apply a cost flow assumption to determine costs.
- Retain documentation supporting inventory counts and costs recorded on inventory lists.
- Prepare a list of damaged or obsolete items and present it to the Governing Board for approval before the items are disposed of.

Three methods for valuing inventory are provided on USFR page VI-D-6.